MICHIGAN
ECONOMIC OUTLOOK

AND

HOUSE FISCAL AGENCY
REVENUE ESTIMATES

FISCAL YEARS
1999-2000 AND 2000-01

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FOREWORD

The House Fiscal Agency (HFA) is pleased to present this report to members of the Michigan House of Representatives. The purpose of the report is to inform members about the revised House Fiscal Agency General Fund/General Purpose and School Aid Fund revenue estimates for the current fiscal year and initial revenue estimates for Fiscal Year 2000-01. The estimates reported herein will be presented to the Consensus Revenue Estimating Conference on January 13, 2000, and will be used to facilitate the consensus estimating process.

Included are HFA analyses of important factors that will affect the state and national economies through the year 2001, estimates of state compliance with the Constitutional State Revenue Limit, and year-end balance estimates for General Fund/General Purpose, the School Aid Fund, and the Countercyclical Budget Stabilization Fund.

This report was prepared by Mitchell Bean, Interim Director and Senior Economist. Jim Stansell, Economist, provided technical support and assisted in the analysis, and Jeanne Dee prepared the report for publication.

EXECUTIVE SUMMARY

Michigan continued to experience robust economic growth throughout Fiscal Year (FY) 1998-99. Baseline General Fund/General Purpose (GF/GP) revenues and School Aid Fund (SAF) revenues (which do not include the effects of tax policy changes effective after FY 1997-98) grew approximately 8.0% and 5.7% respectively in FY 1998-99. Michigan's unemployment rate averaged about 3.6% in 1999, remaining below the national average rate of 4.2%, and inflation in the U.S. was under control at approximately 2.2%.

The House Fiscal Agency (HFA) expects the current economic expansion to continue through FY 2000-01, but the rate of growth will begin to slow in the next several months. The current expansion will be the longest expansion on record. The most important aspects of the HFA forecast are summarized in the following.

U. S. Forecast

Real GDP growth will drop slightly from 3.9% in Calendar Year (CY) 1999 to 3.5% in CY 2000, and will continue to decline to 3.2% in CY 2001.

Inflation will increase from 2.2% in CY 1999 to 2.8% in both CY 2000 and CY 2001.

Light vehicle sales were 17.0 million units in CY 1999, and will total 15.9 million units in both CY 2000 and CY 2001.

The *national unemployment rate* is expected to remain at approximately 4.2% through CY 2001.

Interest rates on three-month T-bills will average 4.6% in CY 1999, 5.4% in CY 2000, and 5.9% in CY 2001.

Michigan Forecast

Michigan personal income increased by 4.0% in CY 1999. The rate of growth will increase to 5.6% in CY 2000 before falling to 4.7% in CY 2001.

Michigan unemployment rates will drop slightly from 3.6% in CY 1999 to 3.3% in both CY 2000 and CY 2001.

Inflation, as measured by the Detroit Consumer Price Index, will rise from 2.6% in CY 1999 to 3.0% in CY 2000, and increase to 3.3% in CY 2001.

U State Revenues

Total baseline GF/GP and SAF revenues were $18.8 billion in FY 1998-89, and will increase 4.9% (to $19.7 billion) in FY 1999-2000 and 4.3% (to $20.5 billion) in FY 2000-01. Baseline revenues do not include prior-year fund balances or reflect the effects of recent tax policy changes.

U State Revenue Limit

Total state revenues will be above the state revenue limit by $120 million in FY 1998-99 and by $130 million in FY 1999-2000, and below the state revenue limit by $388 million in FY 2000-01.

U Year-End Fund Balances

The *year-end GF/GP balance* was $55.2 million in FY 1997-98 and is expected to be $203.8 million in FY 1998-99 and $442.4 million in FY 1999-2000. Pursuant to Public Act 144 of 1997, all year-end balances for FY 1997-98 and each fiscal year thereafter are to be transferred to the Countercyclical Budget Stabilization Fund. However, transfer is not automatic — an appropriation is required.

The *School Aid Fund year-end balance* was$274.3 million in FY 1997-98, and is expected to be $512.6 million in FY 1998-99 and $679.8 million in FY 1999-2000.

The *Countercyclical Budget Stabilization Fund year-end balance* was $1,000.5 million in FY 1997-98, and is expected to be $1,196.8 million in FY 1998-99 and $1,697.4 in FY 1999-2000.

U Baseline and Actual Revenue Estimates

Table 1 reports GF/GP and SAF revenues in terms of baseline and actual revenues (any discrepancy in total amount is due to rounding).

Baseline revenues do not include the impact of partial-year policy changes or certain policy changes that have only recently occurred.

Baseline estimates are comparable across fiscal years and demonstrate the changes to state revenues that are driven by changes in the economy.

Actual GF/GP revenues capture the effects of all policy changes and represent resources actually available.

Actual SAF revenues for FYs 1997-98, 1998-99, and 1999-2000 also include transfers from the BSF of $212.0 million, $73.7 million, and $32.0 million, respectively, pursuant to 1997 PA 144. Actual SAF revenues do not include transfers from GF/GP or beginning fund balances.

Table 1

HFA REVENUE ESTIMATES (Millions of Dollars)	FY 1998-99	FY 1999-2000	FY 2000-01
BASELINE			
GF/GP	$9,455.7	$9,936.5	$10,388.1
SAF	9,303.4	9,734.0	10,134.9
TOTAL	**$18,759.1**	**$19,670.5**	**$20,523.0**
ACTUAL			
GF/GP	$9,375.5	$9,710.1	$9,745.3
SAF	9,298.7	9,758.0	10,166.7
TOTAL	**$18,674.2**	**$19,468.1**	**$19,912.0**

ECONOMIC ASSUMPTIONS AND FORECASTS

This section discusses the economic assumptions used by the House Fiscal Agency to produce its updated revenue forecast for FY 1999-2000 and initial forecast for FY 2000-01.

U U.S. Forecast

There was a higher-than-expected federal budget surplus in 1998. The 1998 surplus reached $69.2 billion on a unified budget basis — a $91 billion improvement over 1997. Current estimates suggest the federal budget surplus will exceed $79 billion in 1999 and climb to almost $120 billion in 2000. While a small portion of the improvement was due to smaller-than-projected increases in spending on defense and transfer payments to individuals, most of the surplus was due to higher-than-anticipated increases in personal tax payments. Moderate interest rates have also helped to hold down federal government interest payments.

Total federal current expenditures increased 4.9% in FY 1998-99, and are expected to increase by 4.2% in FY 1999-2000 and 2.0% in FY 2000-01.

Non-defense consumption expenditures increased at a 7.4% rate in FY 1998-99 and are expected to rise by 5.1% in FY 1999-2000 and 2.5% in FY 2000-01.

Defense expenditures are expected to increase 3.7% in FY 1999-2000 and 1.8% in FY 2000-01.

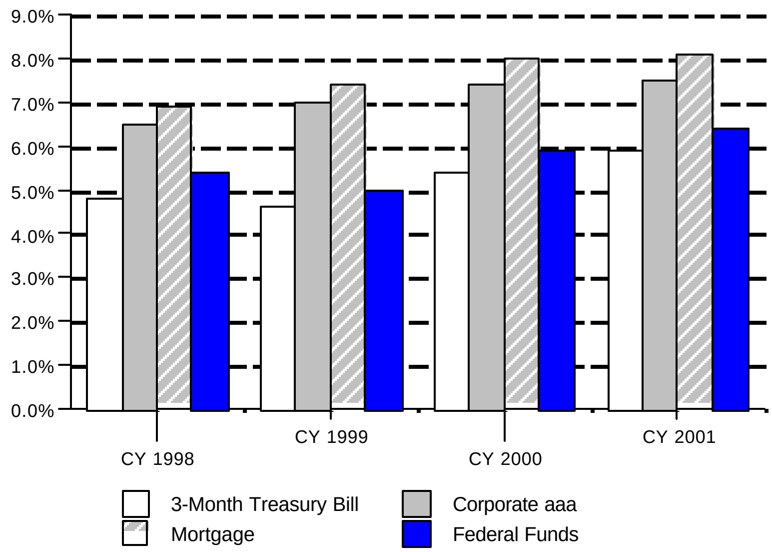
The rate of growth of *total federal transfer payments to individuals* is expected to be 4.3% in FY 1999-2000 and 4.8% in FY 2000-01.

The rate of growth in *federal grants-in-aid to state and local governments* is expected to be 8.7% in FY 1999-2000 and 6.0% in FY 2000-01.

Federal receipts are expected to increase 5.4% in FY 1999-2000 and 5.0% in FY 2000-01.

Figure 1

SHORT-TERM INTEREST RATES



U Interest Rates

Concern about potential inflation has been a prominent theme among economists over the past two years in response to unusually strong growth in real GDP. The U.S. economy, which continues to expand, grew at an annualized real rate of 5.7% in the third quarter of 1999. In an attempt to ward off inflationary forces, the Fed increased the federal funds rate by 25 basis points in mid-November. In spite of this increase, stock prices continue to rise as inflationary indicators, with few exceptions, remain positive.

The economy is expected to continue to grow throughout FY 1999-2000, and then slow down a bit in FY 2000-01. As unemployment continues to hover at historic lows, there is some concern that labor market constraints might exert upward pressures on prices. As a result, the Fed is expected to increase the federal funds rate by 50 basis points during the second quarter of 2000 as well as during the second quarter of 2001.

The federal funds rate is expected to increase from an average of 5.0% in CY 1999 to 5.9% in CY 2000, and reach 6.4% in CY 2001.

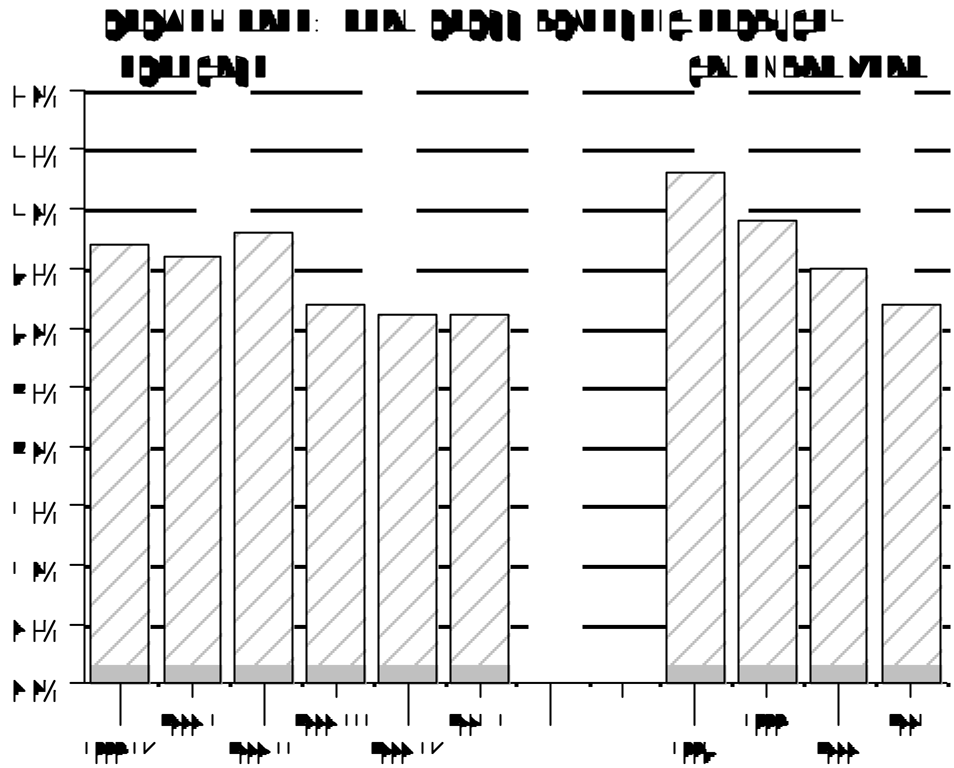
The *three-month Treasury bill rate* is forecast to average 5.4% in CY 2000 and 5.9% in CY 2001.

The *30-year Treasury bond rate* is expected to increase slightly from an average of 5.9% in CY 1999 to 6.5% in both CY 2000 and CY 2001.

Conventional mortgage rates are expected to increase from 7.4% in CY 1999 to 8.0% in CY 2000 and 8.1% in CY 2001.

Corporate aaa rates are expected to increase from 7.0% in CY 1999 to 7.4% in CY 2000 and 7.5% in CY 2001.

Figure 2



**Seasonally Adjusted Annual Rate (SAAR)*

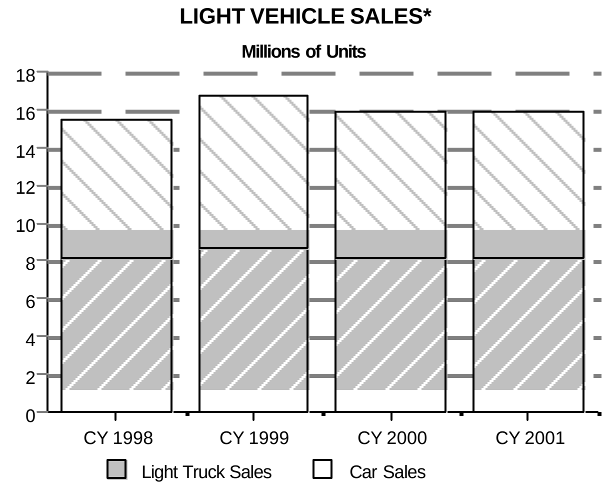
Real GDP

The economy, continuing its robust performance, grew at a rate of 3.9% during CY 1999, fueled in part by an annual 5.7% growth rate during the third quarter of CY 1999. Although annualized fourth quarter growth in CY 1999 remained strong at an estimated 3.7%, subsequent growth rates are expected to be somewhat lower than this during the remainder of the forecast period. Calendar year 1999 also witnessed the rebound of many Asian and European economies. This should promote increased U.S. exports and contribute to economic growth for CYs 2000 and 2001.

Also contributing to the high growth rate is a high rate of private consumption. Households, encouraged by the rising stock market and increasing home values, are feeling wealthier and thus spending more. Barring a major and prolonged correction, this phenomenon should continue throughout the forecast horizon.

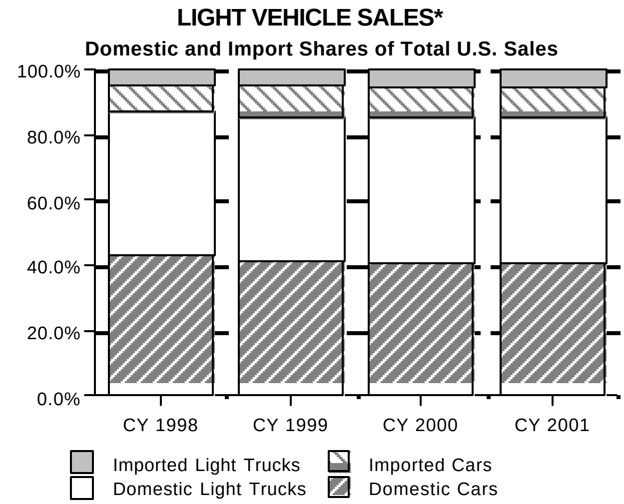
Real GDP increased by an estimated 3.9% in CY 1999, and is expected to grow 3.5% in CY 2000 and 3.2% in CY 2001.

Figure 3



Seasonally Adjusted Annual Rate (SAAR)

Figure 4



Seasonally Adjusted Annual Rate (SAAR)

U Light Vehicle Sales

Sales of light vehicles were exceptionally high in CY 1999, eclipsing the previous record of 16.3 million units set in CY 1986. Although the pace of light vehicle sales is expected to diminish, it should remain strong throughout the forecast period. *Light vehicle sales* are anticipated to decline from 17.0 million units in CY 1999 to 15.9 million units in both CY 2000 and CY 2001.

Over the past several years there has been a shift in sales away from cars and toward light trucks. That trend is expected to continue; by the end of the forecast period, light vehicle sales will be split almost evenly between cars and light trucks. *Light trucks* accounted for approximately 48.1% of light vehicle sales in CY 1999 and are expected to account for 48.8% percent of total sales in CY 2000 and 49.1% in CY 2001.

U Import Share of Auto Sales

The import share of the automobile market jumped from 17.0% in CY 1998 to 19.2% in CY 1999. However, the foreign share of car sales is expected to fall slightly to 18.8% in CY 2000 and 18.4% in CY 2001. In contrast, the import share of light trucks is expected to rise from 9.4% in CY 1999 to 10.0% in CY 2000, and to 10.4% in CY 2001.

When these two impacts are combined, the net result is that the import share of total light vehicle sales will remain relatively constant at about 14.5% throughout the entire forecast period.

INFLATION*

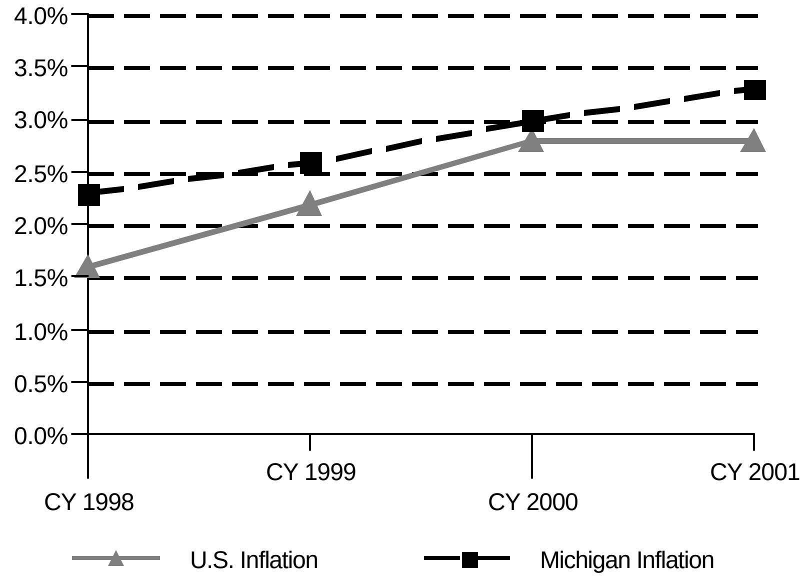


Figure 5

**Not Seasonally Adjusted (NSA)*

U Inflation: U.S.

Inflation is typically triggered when producers attempt to exceed short-term capacity constraints in the economy and/or when input prices rise. Excess capacity coupled with continued growth in industrial production should help keep inflationary pressures low despite some indications that input prices (such as oil prices, wages, and import prices) may be beginning to rise. Inflation is expected to remain low by historical standards, but increase somewhat through CY 2000.

Spot crude oil prices increased significantly during the latter half of CY 1999. The price of benchmark West Texas intermediate crude, which averaged about $14 per barrel in CY 1998, is expected to average slightly more than $19 per barrel after hitting a high of more than $27 per barrel in November. It is anticipated that oil prices, which currently stand at about $26 per barrel, will moderate to about $20 per barrel by mid-2000.

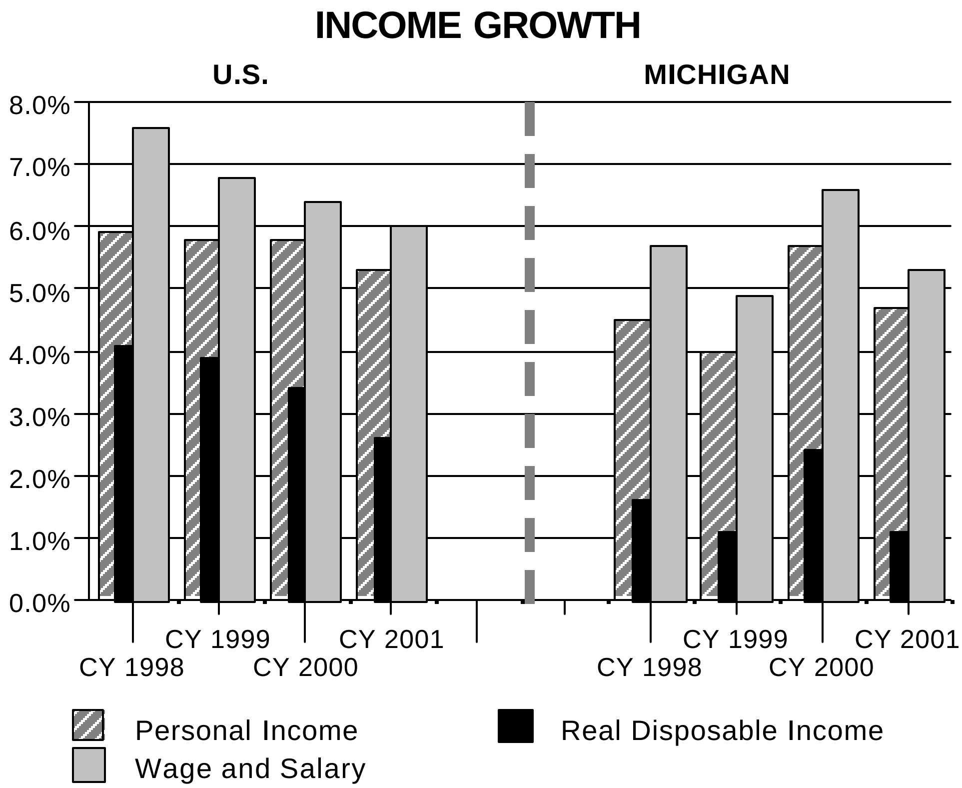
The *rate of inflation in core industrial prices*, as measured by the private non-farm output deflator, is expected to increase approximately by 1.5% in CY 2000 and 2.4% in CY 2001.

These factors are expected to lead to an average annual increase in the *U.S. Consumer Price Index-Urban* (CPI-U) of 2.2% in CY 1999, and 2.8% in both CY 2000 and CY 2001.

U Inflation: Michigan

The cost of living in Michigan, as measured by the *Detroit Consumer Price Index for Urban Consumers* (Detroit CPI-U), increased by 2.6% in CY 1999 — modestly higher than the national average. With the exception of 1994 and 1995 figures which were skewed due to the increase in the sales tax rate, inflation since 1991 has been at or below 2.8% each year. However, that trend is not expected to continue. Inflation in Michigan is expected to rise to 3.0% in CY 2000 and to 3.3% in CY 2001.

Figure 6



U Income Growth: U.S.

Total *U.S. personal income* grew at a 5.8% rate in CY 1999. Personal Income growth is expected to remain at 5.8% in CY 2000 before dropping somewhat to 5.4% in CY 2001.

U.S. wage and salary income growth (6.8% in CY 1999) is expected to slow down slightly, but still grow at a faster rate than total personal income. It is anticipated that wage and salary income growth will decline to 6.3% in CY 2000 and fall to 6.0% in CY 2001.

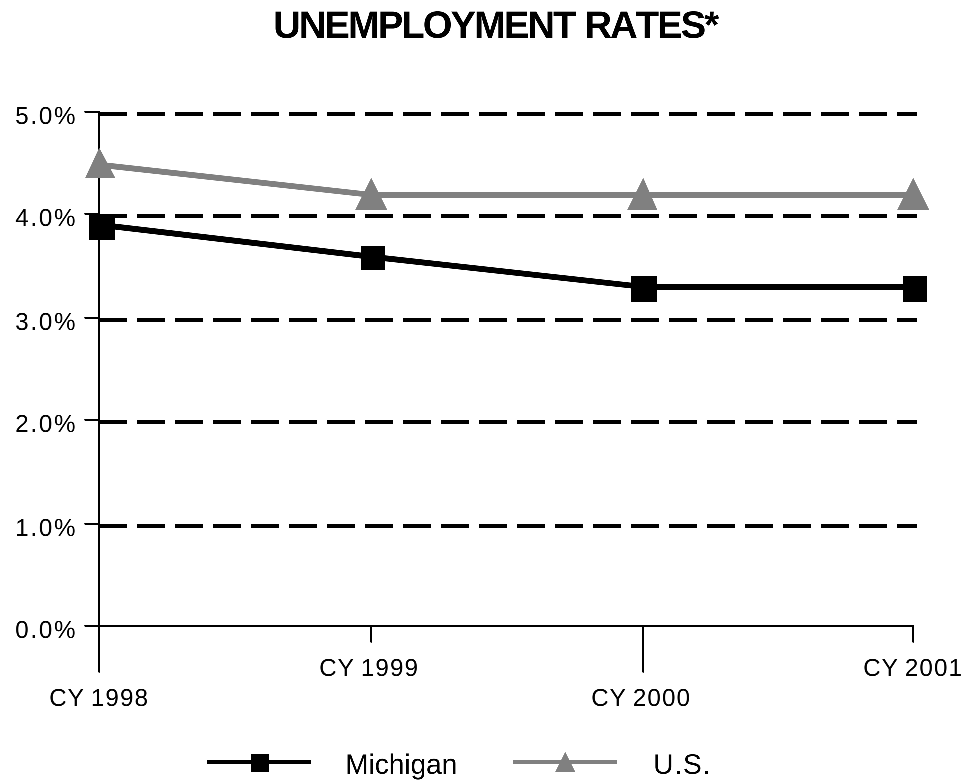
Moderate growth in inflation will result in a 3.9% rate of growth of *U.S. real disposable income* in CY 1999. This will be followed by growth rates of 3.4% and 2.6% in CY 2000 and CY 2001, respectively.

U Income Growth: Michigan

The Michigan economy continues to expand, and income growth is expected to increase modestly in CY 2000 before dropping back slightly in CY 2001.

Total *state personal income* grew by approximately 4.0% in CY 1999. State personal income growth will increase in CY 2000 to 5.6%, and will then drop to 4.7% in CY 2001.

Figure 7



**Seasonally Adjusted Annual Rate (SAAR)*

U Unemployment: U.S.

Non-farm payroll employment increased steadily throughout CY 1998 and the first part of CY 1999, but at a slightly slower pace than the previous year. Through November 1999, non-farm payroll employment had increased by just over 2.1% on an annual basis. Steady economic growth through CYs 1999 and 2000 will allow the economy to continue to create jobs; hence, unemployment rates are expected to remain relatively low.

The *U.S. unemployment rate* was about 4.2% in CY 1999. Unemployment rates in the U.S. are expected to remain stable at 4.2% in both CY 2000 and CY 2001.

U Unemployment: Michigan

Although the job market is expected to remain somewhat tight, job growth in Michigan is expected to be moderate through CY 2001, and the unemployment rate is expected to decrease slightly throughout the forecast period. Wage and salary employment in the manufacturing sector is expected to decline by 0.1% in CY 1999, 0.5% in CY 2000, and 0.7% in CY 2001. Most of the job loss in manufacturing will be in the durable goods sector.

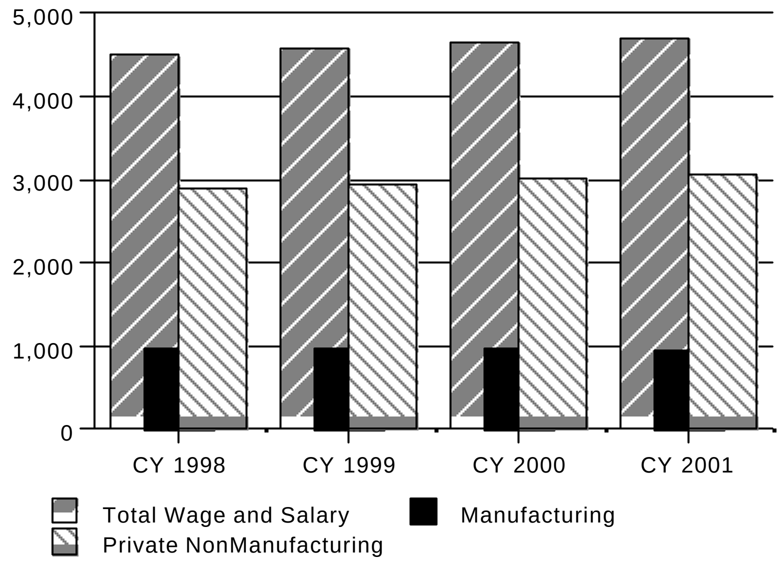
The *Michigan unemployment rate* in CY 1999 was approximately 3.6%.

Unemployment rates in Michigan are expected to average 3.3% in both CY 2000 and CY 2001.

MICHIGAN EMPLOYMENT*

In Thousands

Figure 8



**Composition of Changes (Annual Rate)*

U Employment: Michigan

The Michigan economy continued to create jobs in CY 1999, but the composition of jobs created is changing. In CY 1999, employment in the manufacturing sector is estimated to have dropped slightly when compared to CY 1998, and further declines are expected throughout the forecast period. In contrast, private nonmanufacturing employment grew by an estimated 1.9% in CY 1999.

Total *Michigan wage and salary employment* is expected to increase 1.3% in CY 1999, 1.6% in CY 2000, and 1.1% in CY 2001. However, almost all of the employment gains are expected to be in private nonmanufacturing.

Michigan manufacturing employment will decline by 0.1% in CY 1999, 0.5% in CY 2000, and 0.7% in CY 2001 (due to declines in durable goods employment).

Michigan private nonmanufacturing employment, with an expected increase of 1.9% in CY 1999, will continue to expand at growth rates of 2.3% in CY 2000 and 1.9% in CY 2001. These increases will once again be fueled by the service sector, as well as by the construction and trade sectors.

Employment in services in Michigan is

anticipated to grow by 2.2% in CY 1999, 2.8% in CY 2000, and 2.2% in CY 2001.

Retail trade employment in Michigan will grow by 2.0% in CY 1999, 1.8% in CY 2000, and 1.7% in CY 2001.

Wholesale trade employment in Michigan will grow by 1.5% in CY 1999, 3.0% in CY 2000, and 2.2% in CY 2001.

Construction employment in Michigan will grow by 3.0% in CY 1999, 2.9% in CY 2000, and 1.5% in CY 2001.

Table 2

ECONOMIC VARIABLES			
U.S. FORECAST			
Variable	**CY 1999**	**CY 2000**	**CY 2001**
Rate of Interest, 3-Month Treasury Bill	4.6%	5.4%	5.9%
Real GDP Growth	3.9%	3.5%	3.2%
Light Vehicle Sales (millions of units)	17.0	15.9	15.9
Import Share of Light Vehicle Sales	14.5%	14.5%	14.5%
U.S. CPI-U -- Percentage Change	2.2%	2.8%	2.8%
U.S. Personal Income Growth	5.8%	5.8%	5.4%
Unemployment Rate	4.2%	4.2%	4.2%
MICHIGAN FORECAST			
Variable	**CY 1999**	**CY 2000**	**CY 2001**
Detroit CPI-U -- Percentage Change	2.6%	3.0%	3.3%
Michigan Personal Income Growth	4.0%	5.6%	4.7%
Unemployment Rate	3.6%	3.3%	3.3%
Wage and Salary Employment Growth	1.3%	1.6%	1.1%

RISKS AND UNCERTAINTIES

International Economy

Michigan is one of the leading export states in the nation. Therefore, Michigan's economy is sensitive to events that affect international trade. In general, the majority of both the European and the Asian economies have begun to recover from the turmoil that existed in 1998. As these economies regain strength, the U.S. should see an increase in export growth. If a European and/or Japanese recession persists and/or if there is further turmoil in international capital markets, there may be a negative impact on the U.S. economy.

Monetary Policy

Although interest rates in Europe rose recently, the increases are modest enough to allow for a continuation of the European economic expansion. In the U.S., the Fed increased the federal funds rate by 25 basis points in mid-November. We expect the Fed to increase the federal funds rate at some point in both CY 2000 and CY 2001. If continued economic growth begins to create fears of higher-than-expected inflation, even larger increases are possible.

Consumer Spending

Consumer spending (consumption) represents about two-thirds of the value of GDP (which is expected to exceed $9 trillion in CY 2000). Strong consumer spending fueled the robust economic growth the U.S. has experienced in recent years.

Real consumption increased more than 5.0% in CY 1999. To put this into perspective, growth in real consumption was 3.4% in CY 1997, 4.9% in CY 1998, and averaged 2.6% per year from CY 1992 to CY 1997.

We expect consumption to moderate somewhat in both CY 2000 and CY 2001. If consumption continues at a much stronger rate, we will have underestimated the strength of the economy in CY 2000. Conversely, if there is a major stock market correction or if the housing market suffers more than expected due to higher interest rates, consumption could stall and negatively affect U.S. economic growth.

GF/GP AND SAF REVENUES

This section explains January 2000 House Fiscal Agency revenue estimates for GF/GP and School Aid Fund revenue by major revenue sources. Important assumptions behind the revenue estimates are discussed in the following text. Revenue estimates are reported in **Tables 3 and 4** on pages 18 and 20. Also included are state revenue limit calculations.

General Fund/General Purpose Revenue by Source

U Personal Income Tax

The jobs base is expected to continue to expand in CYs 2000 and 2001, and unemployment rates will remain low. In addition, income growth from capital gains was very strong in CY 1999. Capital gains are expected to slow somewhat in CY 2000. This will lead to moderately slower growth in Michigan personal income and income tax revenues through FY 2000-2001.

Baseline *GF/GP income tax revenues* are expected to increase 5.4% (to $5,343.0 million) in FY 1999-2000, and 5.2% in FY 2000-01 (to $5,618.2 million). Baseline revenues do not include the impact of indexing the personal exemption, the final phase-in of the interest and dividend exemption for seniors, the impact of increasing the personal exemption in 1998, or the impact of decreasing the income tax rate from 4.4% to 4.3% in 2000 and to 4.2% in 2001.

U Sales and Use Taxes

Sustained growth in wage and salary income and sustained low unemployment will combine to increase baseline *sales and use tax revenue* from $975.5 million in FY 1998-99 to $1,013.5 million in FY 1999-2000, and by 6.5% (to $1,079.8 million) in FY 2000-01.

U Single Business and Insurance Taxes

All Single Business Tax (SBT) revenues accrue to GF/GP. Net baseline business taxes (SBT plus insurance taxes) were $2,490.3 million in FY 1998-99. As a result of solid corporate profits, *baseline business tax revenues* will increase by 5.4% (to $2,624.0 million) in FY 1999-2000, and by 4.5% (to $2,743.1 million) in FY 2000-01.

Baseline Single Business Tax revenues alone were $2,284.8 million in FY 1998-99; they are expected to increase 5.4% (to $2,408.2 million) in FY 1999-2000, and by 4.5% (to $2,516.5 million) in FY 2000-01.

Baseline estimates do not include the impact of SBT apportionment changes, the full effects of the new apprenticeship credit, the elimination of the Capital Acquisition Deduction, or the institution of an Investment Tax Credit, all of which will affect FY 1998-99 and FY 1999-2000 revenue collections. The estimate does include the impact of the SBT phase-out for FY 1998-99, but not for subsequent years.

U GF/GP Baseline Tax Revenues

Baseline GF/GP tax revenues totaled $9,174.9 million in FY 1998-99. *General Fund/General Purpose baseline tax revenues* are expected to increase by 5.1% (to $9,642.5 million) in FY 1999-2000 and by 4.8% (to $10,109.1 million) in FY 2000-01. Total GF/GP baseline tax revenues include the category labeled “Other Taxes” in **Table 3**.

U Total GF/GP Baseline Revenues

Total baseline GF/GP revenues include baseline tax revenues and non-tax revenues. *Total GF/GP baseline revenues* were $9,455.7 million in FY 1998-99. General Fund/General Purpose baseline revenues are expected to increase by 5.1% (to $9,936.5 million) in FY 1999-2000 and by 4.5% (to $10,388.1 million) in FY 2000-01.

U Actual GF/GP Revenues

Actual GF/GP revenues represent revenues available for expenditure each year. *Actual GF/GP revenues* are expected to be $9,710.2 million in FY 1999-2000 and are expected to increase by 0.4% (to $9,745.3 million) in FY 2000-01.

Table 3

GF/GP REVENUE ESTIMATES
(Millions of Dollars)

	Fiscal Year 1998-99	Fiscal Year 1999-2000	Fiscal Year 2000-01	Fiscal Year 2000-01 over 1999-2000 %Change	$Change
Personal Income Taxes	$5,071.6	$5,343.0	$5,618.2	5.2%	$275.2
Sales and Use Taxes	975.5	1,013.5	1,079.8	6.5%	66.3
SBT and Insurance Taxes	2,490.3	2,624.0	2,743.1	4.5%	119.1
Other Taxes	637.5	662.0	668.0	0.9%	6.0
GF/GP Baseline Tax Revenues	**$9,174.9**	**$9,642.5**	**$10,109.1**	**4.8%**	**$466.6**
Non-Tax Revenue	280.8	294.0	279.0	-5.1%	(15.0)

Total GF/GP Baseline Revenues	**$9,455.7**	**$9,936.5**	**10,388.1**	**4.5%**	**$451.6**
Adjustments to Baseline	(80.2)	(226.3)	(642.8)		**($416.5)**
Actual GF/GP Revenues	**$9,375.5**	**$9,710.2**	**$9,745.3**	**0.4%**	**$35.1**

School Aid Fund Revenue by Source

U Sales and Use Taxes

Baseline sales tax revenues will increase by 4.7% for both FY 1999-2000 and FY 2000-01; baseline use tax revenue will increase by 7.2% in FY 1999-2000 and by 4.5% in FY 2000-01. Combined *sales and use tax revenue* dedicated to the School Aid Fund (SAF) equaled $4,734.7 million in FY 1998-99 and will increase by 5.0% (to $4,969.3 million) in FY 1999-2000, and by 4.6% (to $5,200.1 million) in FY 2000-01.

U Income Tax

Twenty-three percent of gross income tax revenue is dedicated to the School Aid Fund. Dedicated *income tax revenue* was $1,852.6 million in FY 1998-99 and will increase by 5.2% (to $1,948.8 million) in FY 1999-2000 and 5.0% (to $2,046.6 million) in FY 2000-01.

U State Education Tax

The 6-mill state education tax (SET) is dedicated to the SAF. Revenues from the SET were $1,270.7 million in FY 1998-99. *State Education Tax revenues* are expected to increase 8.2% (to $1,375.0 million) in FY 1999-2000, and 4.4% (to $1,435.0 million) in FY 2000-01.

U Lottery Transfers

Lottery revenues contributed approximately $616.0 million to the SAF in FY 1998-99. Baseline *lottery revenues* to the SAF are projected to rise to $628.3 million in FY 1999-2000 and $640.9 million FY 2000-01.

Baseline revenue estimates do not include the impact of Detroit Casinos. The net impact of casinos on the School Aid Fund is expected to be $50.7 million in FY 1999-2000 and $73.9 million in FY 2000-01. These amounts appear in the adjustments to baseline revenues.

U Tobacco Taxes

Approximately 64.0% of gross tobacco tax revenue is dedicated to the School Aid Fund. The School Aid Fund received approximately $393.0 million from tobacco taxes in FY 1998-99. The demand for tobacco products is expected to decline slowly over the duration of the forecast. Total baseline *tobacco tax revenues* are expected to decrease to $385.9 million in FY 1999-2000 and to $380.3 million FY 2000-01.

U Transfer Tax

A tax based on 0.75% of the value of real estate transferred in Michigan took effect on January 1, 1995. Revenues are dedicated to the School Aid Fund. The *transfer tax* contributed $261.3 million to the SAF in FY 1998-99 and will contribute $265.2 million to the SAF in FY 1999-2000 and $270.5 million in FY 2000-01.

U Total SAF Baseline Revenues

Total SAF baseline revenues were $9,303.4 million in FY 1998-99. *School Aid Fund baseline revenues* are expected to increase 4.6% (to $9,734.0 million) in FY 1999-2000 and 4.1% (to $10,134.9 million) in FY 2000-01.

U Actual SAF Revenues

Actual SAF revenues represent own-source revenues available for expenditure each year, excluding prior year-end balances, and GF/GP transfers to SAF. *Actual SAF revenues* were $9,298.7 million in FY 1998-99 and are expected to increase by 4.9% to $9,758.0 million in FY 1999-2000 and by 4.2% to $10,166.7 million in FY 2000-01.

Table 4

SCHOOL AID FUND REVENUE ESTIMATES (Millions of Dollars)					
				2000-01 over 1999-2000	
Revenues	Fiscal Year 1998-99	Fiscal Year 1999-2000	Fiscal Year 2000-01	% Change	$ Change
Sales and Use Tax	$4,734.7	$4,969.3	$5,200.1	4.6%	230.8
Income Tax Earmark	1,852.6	1,948.8	2,046.6	5.0%	97.8
State Education Tax	1,270.7	1,375.0	1,435.0	4.4%	60.0
Lottery Transfers	616.0	628.3	640.9	2.0%	12.6
Tobacco Taxes	393.0	385.9	380.3	-1.5%	(5.6)
Real Estate Transfer Tax	261.3	265.2	270.5	2.0%	5.3
Liquor Excise & Specific Taxes	175.1	161.5	161.5	0.0%	0.0
Baseline SAF Revenues	**$9,303.4**	**$9,734.0**	**$10,134.9**	**4.1%**	**$400.9**
Adjustments to Baseline	(4.7)	24.0	31.8		
Actual SAF Revenues (less GF/GP Transfer)	**$9,298.7**	**$9,758.0**	**$10,166.7**	**4.2%**	**$408.7**

HFA Estimates of Year-End Balances

Table 5 reports House Fiscal Agency estimates of year-end balances for GF/GP, the SAF, and the BSF.

Fiscal Year 1998-99 estimates for GF/GP and the SAF are based on year-to-date appropriations, projected year-end adjustments, and preliminary year-end revenue estimates.

Fiscal Year 1999-2000 estimates are based on year-to-date appropriations and HFA revenue estimates.

Budget Stabilization Fund estimates are based on current balance estimates provided by the Michigan Department of Treasury and HFA estimates of future deposits and interest earned.

The Management and Budget Act requires that any unreserved year-end balance in GF/GP for FY 1997-98 and thereafter will be transferred to the BSF.

School Aid Fund revenues are restricted; hence, any year-end balance is carried forward to the subsequent year.

Table 5

YEAR-END BALANCE ESTIMATES
(Millions of Dollars)

	Fiscal Year 1997-98	Fiscal Year 1998-99	Fiscal Year 1999-2000
General Fund/General Purpose	$55.2	$203.8	$442.4
School Aid Fund	274.3	512.6	679.8
Budget Stabilization Fund	1,000.5	1,196.8	1,697.4

Budget Stabilization Fund Year-End Balances

Table 6 and **Figure 9** show a history of the BSF balance. **Table 6** shows deposits, withdrawals, and interest earnings from FY 1989-90 through FY 1997-98. It also includes HFA estimates of deposits, expected interest earnings, and year-end balances for FYs 1998-99 and 1999-2000.

A complete list of BSF historical data is available from the HFA upon request.

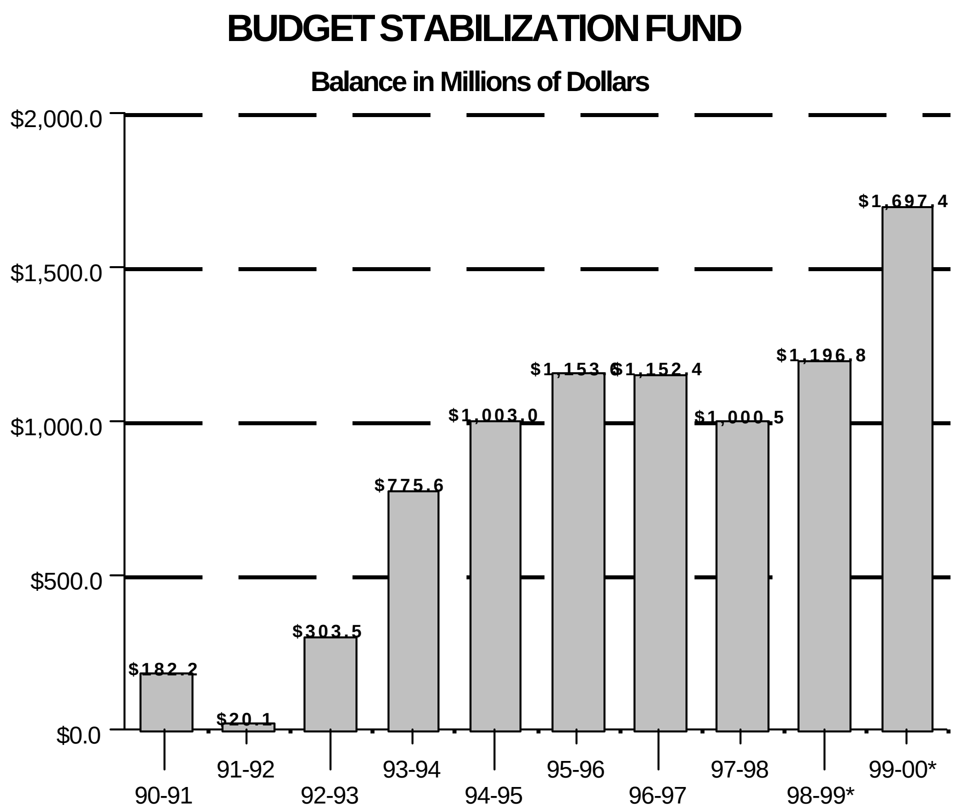
Table 6

BUDGET STABILIZATION FUND
(Millions of Dollars)

Fiscal Year	Deposits	Withdrawals	Interest Earned	Balance
1989-90	$0.0	$69.9	$35.8	$385.1
1990-91	0.0	230.0	27.1	182.2
1991-92	0.0	170.1	8.1	20.1
1992-93	282.6	0.0	0.8	303.5
1993-94	460.2	0.0	11.9	775.6
1994-95	260.1	90.4	57.7	1,003.0
1995-96	91.3	0.0	59.2	1,153.6
1996-97	0.0	69.0	67.8	1,152.4
1997-98	0.0	212.0	60.1	1,000.5
1998-99*	203.8	73.7	66.2	1,196.8
1999-2000*	442.4	32.0	90.2	1,697.4

* *Estimates*
NOTE: Numbers may not add due to rounding.

Figure 9



**Estimates*

Compliance with the State Revenue Limit

Table 7 reports HFA estimates of the state revenue limit provided for in Article IX, Section 26, *Constitution of the State of Michigan*, and estimates of total state revenue collections subject to the state revenue limit. As provided for in the *Constitution*, the revenue limit is calculated as 9.49% of total state personal income in the previous full calendar year prior to the fiscal year in which the revenues are measured, as estimated by the Bureau of Economic Analysis, United States Department of Commerce.

Table 7

COMPLIANCE WITH THE STATE REVENUE LIMIT
(Millions of Dollars)

Revenue Limit Calculations	Fiscal Year 1997-98	Fiscal Year 1998-99	Fiscal Year 1999-2000	Fiscal Year 2000-01
Personal Income				
Calendar Year	CY 1996	CY 1997	CY 1998	CY 1999
Amount	$239,330	$244,329	$255,038	$266,923
X Limit Ratio	9.49%	9.49%	9.49%	9.49%
State Revenue Limit	**$22,712.4**	**$23,186.8**	**$24,203.1**	**$25,331.0**
Total Revenues Subject to Revenue Limit	22,072.3	23,306.8	24,073.1	24,943.0
Amount Under (Over) State Revenue Limit	**$640.1**	**($120.0)**	**$130.0**	**$388.0**

Implications of Exceeding the State Revenue Limit

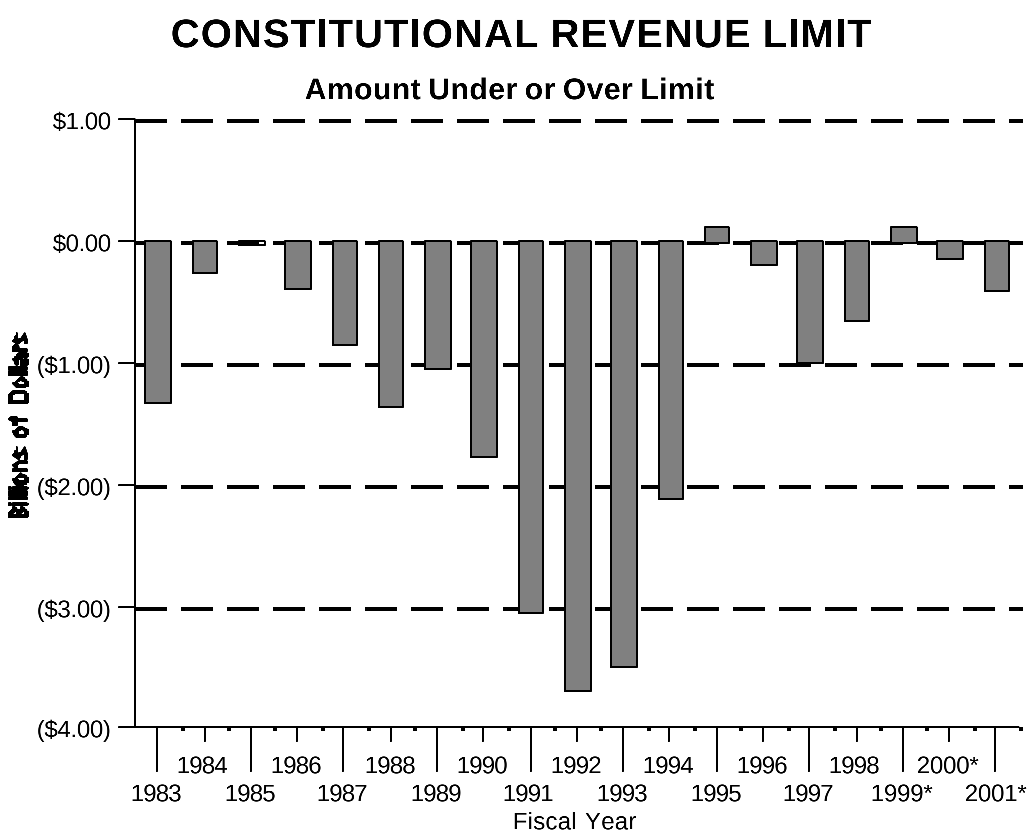
Article IX, Section 26, *Constitution of the State of Michigan*, provides that:

> . . .For any fiscal year in the event that Total State Revenues exceed the limit established in this section by 1% or more, the excess revenues shall be refunded pro rata based on the liability reported on the Michigan income tax and single business tax (or its successor tax or taxes) annual returns filed following the close of such fiscal year. If the excess is less than 1%, this excess may be transferred to the State Budget Stabilization Fund. . . .

Furthermore, the state is prohibited from spending any current-year revenue in excess of the limit established in Section 26 by Article IX, Section 28.

Figure 10 and **Table 8** provide historical information on Michigan's state revenue limit.

Figure 10



*HFA estimates

Table 8

CONSTITUTIONAL REVENUE LIMIT Amount (Under) or Over Limit in Billions of Dollars			
Fiscal Year	**Amount (Under) or Over**	**Fiscal Year**	**Amount (Under) or Over**
1980	($0.53)	1991	($3.04)
1981	($1.17)	1992	($3.69)
1982	($1.41)	1993	($3.48)
1983	($1.32)	1994	($2.11)
1984	($0.24)	1995	$0.11
1985	($0.01)	1996	($0.18)
1986	($0.37)	1997	($0.98)
1987	($0.84)	1998	($0.64)
1988	($1.35)	1999*	$0.12
1989	($1.03)	2000*	($0.13)
1990	($1.76)	2001*	($0.39)

**HFA Estimates*